LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6318
BILL NUMBER: SB 59

DATE PREPARED: Feb 26, 2002
BILL AMENDED: Feb 25, 2002

SUBJECT: PERF and TRF Administrative Issues.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill: (1) permits the pooling of the assets of the Public Employees' Retirement Fund (PERF) and the Indiana State Teachers' Retirement Fund (TRF) for investment purposes;(2) allows certain units in the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) to buy back members' service; (3) permits a PERF or TRF member to suspend the member's right to a pension benefit and to use the member's Annuity Savings Account to purchase service in another government retirement plan; (4) permits PERF and TRF to offer dental, vision, and long term care coverage to retirees; (5) Liberalizes rollover distributions and trustee-to-trustee transfers for certain public retirement funds as permitted by the federal Economic Growth and Tax Relief Reconciliation Act of 2001; (6) permits PERF and TRF members to purchase at actuarial cost additional years of service credit; (7) authorizes school corporations to make payments to PERF and TRF using electronic funds transfer; (8) authorizes political subdivisions to make payments to PERF using electronic funds transfer; (9) authorizes PERF and TRF to enter into investment contracts for a term longer than 5 years; and (10) reduces from 75 to 70 the age at which a PERF or TRF member may elect to begin receiving retirement benefits while continuing to work in a covered position. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: Upon passage; July 1, 2002.

Explanation of State Expenditures: (Revised) *Background Information*: P.L. 119-2000 provides that both PERF and TRF are independent bodies corporate and politic. As a result, the funds pay their own administrative expenses and are not subject to review by the State Department of Personnel or the State Budget Agency. Both PERF and TRF operate from revenues generated from their investment income. The Boards of Trustees of PERF and TRF determine staffing levels and expenditure levels.

Fiscal Impacts:

(1)Permitting the pooling of the assets of the Public Employees' Retirement Fund (PERF) and the Indiana

State Teachers' Retirement Fund (TRF) for investment purposes.

Both PERF and TRF report that this provision will require programming changes and accounting changes, but, over time, this provision may save the funds money as it relates to investment costs.

(2) Allowing certain units in the 1977 Fund to buy back members' service to 52 years of age.

There likely will be additional administrative work associated with this part of the proposal. However, PERF reports that there will be no additional staff required.

(3) Permitting a PERF or TRF member to forfeit the member's right to an Indiana pension benefit and to withdraw amounts in the member's Annuity Savings Account to purchase service in another government retirement plan.

PERF and TRF both report that there will be additional administrative time and programming changes associated with this provision, but no additional staff will be required.

(4) Permitting PERF and TRF to offer dental, vision, and long term care coverage to retirees.

The specific fiscal impact will depend upon the type of agreement into which the PERF and TRF Board of Trustees enters. (This part of the fiscal note will be updated upon receipt of the necessary data from the TRF.)

(5) Liberalizing rollover distributions and trustee-to-trustee transfers for certain public retirement funds as permitted by the federal Economic Growth and Tax Relief Reconciliation Act of 2001.

The Funds report that there will be programming changes required which can be accomplished with current staff.

(6) Permitting PERF and TRF members to purchase at actuarial cost additional years of service credit.

There is no fiscal impact for the components of the proposal addressing the purchase of service since the purchase would be at the actuarial cost.

The amendment of 1/22/02 allows the employer to pay part or all of the cost for the purchase of service. The specific impact will depend upon the amount, if any, the employer elects to pay. For the state, the costs could range from nothing if the state elects not to implement the proposal. However, if the state and municipalities were to choose to provide this benefit as a window, for example a period not exceeding one year, the estimated impact if the state and municipalities paid 100% of the cost is shown in the following table.

Temporary Window

	State	**Municipalities**
Number of Members Eligible	8,208	unknown
Increase in PERF Unfunded Liability	$38.9 M	$48.18 M
Increase in PERF Annual Cost	($300,000)	($460,000)
Reduction in Salaries	$27.16 M	unknown

The above table reflects the estimated cost on PERF if the members can purchase an extra year of service for every five years of service they have accrued.

It was assumed that this purchase would only be available for a brief period of time, not longer than one year, for members of PERF (state employees only) eligible for retirement. It was further assumed that retirements would increase by 100% during the availability period.

The table also reflects the savings to the State due to reduced salaries resulting from higher levels of retirement. It is very important to note, however, that the savings is only available if the positions of those additional members retiring as a result of this program are permanently left unfilled.

If the purchase of service program were to be permanent and the state and municipalities were to pay 100% of the cost, the estimated increase in annual cost is reflected in the following table.

Permanent Window

	State	**Municipalities**	**Total**
Normal Cost	$13,476,623	$20,325,021	$33,801,644
Amortization	$23,869,714	$28,726,494	$52,596,208
Total	$37,346,337	$49,051,515	$86,397,852
Increase as a % of Payroll	2.8%	2.4%	2.6%

The funds affected for the State are the State General Fund (55%) and various dedicated funds (45%). These percentages represent the amount each fund contributes for personal services in the State Budget.

(9) Authorizing PERF and TRF to enter into investment contracts for a term longer than 5 years.

Both PERF and TRF report that this provision likely will have no fiscal impact on them.

(10) Reducing from 75 to 70 the age at which a PERF or TRF member may elect to begin receiving retirement benefits while continuing to work in a covered position.

For both PERF and TRF, reducing the age from 75 to 70 has no fiscal impact as the actuarial assumptions used to determine the employer contribution rate assumes all members retire no later than 70 years of age.

Explanation of State Revenues:

Explanation of Local Expenditures: *(7) Authorizing school corporations to make payments to PERF and TRF using electronic funds transfer.*

Both PERF and TRF have reported that this provision likely will save money for both the local school corporation and the local unit of government.

(8) Authorizing political subdivisions to make payments to PERF using electronic funds transfer.

PERF reports that this provision likely will save money for the local unit of government.

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF.

Local Agencies Affected: Those units with members in PERF and TRF and the 1977 Police Officers' and Firefighters' Disability and Pension Fund; School Corporations.

Information Sources: Bill Butler, Executive Director of PERF, 233-4133; Bill Christopher, Executive Director of TRF, 232-3869; Doug Todd of McCready & Keane, actuaries for PERF and the Police and Fire Funds, 576-1508.

DEFINITIONS

Amortization - paying off an interest-bearing liability by gradual reduction through a series of installments as opposed to paying it off by one lump-sum payment.

Normal Cost - the current value of benefits likely to be paid on account of members' service being rendered in the current year.